

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

TRANSFERRING OUTBOUND SINGLE-PIECE  
FIRST-CLASS MAIL INTERNATIONAL PACKAGES  
AND ROLLS

DOCKET NO. MC2012-44

**UNITED STATES POSTAL SERVICE NOTICE OF FILING  
LIBRARY REFERENCE USPS-LR-MC2012-44/NP1 AND  
APPLICATION FOR NON-PUBLIC TREATMENT**  
(August 10, 2012)

The Postal Service files the material indicated below in this proceeding as

Category 2 Library Reference:

USPS-LR-MC2012-44/NP1	Outbound Single-Piece First-Class Mail International Disaggregated Between Letters & Flats and Packages [Non-Public]
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This library reference shows the impact of disaggregating Outbound First-Class Mail International between Letters & Flats and Packages & Rolls. The Postal Service regards the disaggregated cost, volume, and revenue data contained in the library reference to be commercially-sensitive and proprietary information that should not be released into the public domain. Further, the library reference is based on the International Cost Segments and Components Report shown in USPS-FY11-NP3 and uses inputs from the International Cost and Revenue Analysis (ICRA) Report from USPS-FY11-NP2, both treated as non-public in Docket No. ACR2011. Accordingly, the Postal Service is providing USPS Library Reference MC2012-44/NP1 as a non-public library reference. An application for non-public treatment of USPS Library Reference MC2012-44/NP1 is attached to this Notice.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**APPLICATION OF THE UNITED STATES POSTAL SERVICE  
FOR NON-PUBLIC TREATMENT OF MATERIALS**

(August 10, 2012)

In accordance with 39 C.F.R. § 3007.21 and Order No. 225,<sup>1</sup> the United States Postal Service (Postal Service) applies for non-public treatment of certain materials filed under seal with the Commission. Library Reference USPS-LR-MC2012-44/NP1 includes sensitive commercial information, consisting of disaggregated cost, volume, and revenue data.

**(1) The rationale for claiming that the materials are non-public, including the specific statutory basis for the claim, and a statement justifying application of the provision(s);**

The materials designated as non-public consist of information of a commercial nature that under good business practice would not be publicly disclosed. In the Postal Service's view, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. § 552(b)(3). Because the materials that the Postal Service applies to file under seal fall within the scope of information not required to be publicly disclosed, the Postal Service asks the Commission to support its determination that these materials qualify as exempt from public disclosure and grant its application for their non-public treatment.

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<sup>1</sup> PRC Order No. 225, Final Rules Establishing Appropriate Confidentiality Procedures, PRC Docket No. RM2008-1 (June 19, 2009).

**(2) Identification, including name, phone number, and email address for any third-party who is known to have a proprietary interest in the materials, or if such an identification is sensitive, contact information for a Postal Service employee who shall provide notice to that third party;**

The financial documentation contains information that might be considered proprietary to both the Postal Service and Canada Post. The Postal Service has already informed Canada Post, in compliance with 39 C.F.R. § 3007.20(b), of the nature and scope of this filing and its ability to address its confidentiality concerns directly with the Commission. The Postal Service identifies Terry Dunn, General Manager, International Relations, Canada Post Corporation, as the appropriate contact on behalf of Canada Post. Mr. Dunn's telephone number is (613) 734-8894, and his email address is terry.dunn@canadapost.ca. Canada Post has requested that any communications regarding confidential treatment of the data be sent with a courtesy copy to Ewa Kowalski, Manager, International Mail Settlement, Canada Post Corporation. Ms. Kowalski's telephone number is (613) 734-6201, and her email address is ewa.kowalski@canadapost.ca.

**(3) A description of the materials claimed to be non-public in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are non-public;**

The non-public materials contain disaggregated cost, volume, and revenue data that is commercial information of the Postal Service. Further, the library reference is based on the International Cost Segments and Components Report shown in USPS-FY11-NP3 and uses inputs from the International Cost and Revenue Analysis (ICRA) Report from USPS-FY11-NP2, both treated as non-public in Docket No. ACR2011. The library reference presents the inputs and the analyses used to attribute and distribute

costs to First-Class Mail International. The Postal Service maintains that these materials should remain confidential.

**(4) Particular identification of the nature and extent of commercial harm alleged and the likelihood of such harm;**

If the information that the Postal Service seeks to protect from disclosure due to its confidential nature were disclosed publicly, the Postal Service considers it quite likely that it would suffer harm. Disclosing the data for First-Class Mail International would provide competitors with valuable information, enabling them to better understand the Postal Service's cost structures. This confidential information includes per-piece costs in several analytical categories, such as volume variable costs and price category-specific costs, as well as disaggregated cost contribution and cost coverage. Such information would be extremely valuable to competitors in assessing the strengths and weaknesses of various postal products. Armed with detailed product cost information, competitors would be able to better identify and understand areas where they could adapt their own operations to be more competitive with First-Class Mail International and better assess how to price and market their own products in such a way as to target the Postal Service's weaknesses and compensate for its strengths in producing and marketing various products.

Furthermore, information contained in the workpapers would provide an even more refined knowledge of the Postal Service's costs, cost structures, and capabilities. Postal costs are recorded in elaborate systems of general ledger accounts. These are grouped into various functional and other categories (cost segments and components) for further analysis and ultimate allocation and distribution to individual products. The

level of detail contained in the workpapers is highly refined and would enable competitors and Foreign Postal Operators with whom the Postal Service might negotiate particular contract rates to gain competitive or negotiating advantages that could lead to suppressing potential financial gains from the sale of postal products or the diversion of business away from the Postal Service to competitors. Either of these results would constitute serious commercial harm.

Additionally, competitors could use the product-specific revenue, pieces, and weight information to analyze the Postal Service's possible market strengths and weaknesses and to focus sales and marketing efforts on those areas, to the detriment of the Postal Service. Disclosure of this information would also undermine the Postal Service's position in negotiating favorable terms with Foreign Postal Operators, who would be able to ascertain critical information about relevant product trends (e.g., average revenue per piece, average weight per piece).

The Postal Service considers it highly probable that, if this information were made public, the Postal Service's competitors and customers would take immediate advantage of it. Such information is information of a commercial nature, which under good business practice would not be publicly disclosed. In the Postal Service's opinion, this information would be exempt from mandatory disclosure pursuant to 39 U.S.C. § 410(c)(2) and 5 U.S.C. §§ 552(b)(2,-3).<sup>2</sup>

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<sup>2</sup> In certain circumstances, the Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. § 504(g)(3)(A). The Commission has indicated that "likely commercial injury" should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. PRC Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1, Mar. 20, 2009, at 11.

**(5) At least one specific hypothetical, illustrative example of each alleged harm;**

**Harm:** Competitors could use disaggregated cost, revenue, and volume summary data to gain knowledge and insights about the relative strengths and weaknesses of the Postal Service's First-Class Mail International product. That refined understanding would, in turn, give competitors advantages in seeking to divert business from the Postal Service and to gain new business for which the Postal Service might compete. As a result, the Postal Service would experience losses of existing and new business, or erosion of contributions and margins.

**Hypothetical:** The library reference, including revenue, attributable costs, volume variable costs, product specific costs, and per-piece attributable costs, contribution, and cost coverage data is made public. Competitors use it to gain a refined understanding of the strengths and weaknesses of the Postal Service's First-Class Mail International product. Financial analysts for competitors relay their assessments to colleagues in the competitors' marketing and investment divisions. This information provides a better foundation to enable competing firms to make decisions regarding investments and product design in their own product lines. Based on such assessments, for example, firms that have individual products comparable to First-Class Mail International determine that they have potential for competitive gain against the Postal Service and, accordingly, decide to allocate investments in improved operations, supplier arrangements, and technologies to improve their competitive positions. To the extent that these decisions actually make the firms more competitive, the Postal Service loses existing or new business.

**Harm:** The workpapers provide detailed and refined knowledge and understanding of the individual costs, cost structure, contributions, and cost coverage of First-Class Mail International. These materials would provide highly detailed information regarding operational procedures used to produce the product, the costs and relative efficiencies of operations and sub-operations, and the amount and character of overhead, including

the relative proportions of volume variable and overhead costs. Public disclosure would therefore be tantamount to publishing virtually every detail regarding the relative costs and efficiencies of providing First-Class Mail International. This information would provide blueprints for competitors. The information would better enable them to make favorable operational, investment, pricing, and marketing decisions. The results would be loss of existing or future business for the Postal Service, or the erosion of total revenues, contributions, margins, and overall financial stability.

**Hypothetical:** The workpapers are disclosed to the public. These reports group costs recorded in postal accounts according to various functional categories. The costs are distributed across the First-Class Mail International price categories. The hypothetical disclosure provides competitors with a detailed understanding of the cost structures for First-Class Mail International specifically (and postal products generally), its relative strengths and weaknesses from a cost perspective, and the flexibilities available to the Postal Service within the legal framework applicable to postal prices. The refined understanding resulting from disclosure enables competitors to make decisions that would compensate for Postal Service strengths and capitalize on its weaknesses. These decisions might involve design of competing firms' own products, alternative price structures, operational procedures, and marketing strategies. Such competitive advantages lead to diversion of business away from the Postal Service.

**Harm:** Competitors could use disaggregated product volume, weight, and revenue distribution information to assess vulnerabilities and focus sales and marketing efforts to the Postal Service's detriment.

**Hypothetical:** The disaggregated revenue, volume, and weights are disclosed to the public. Another delivery service's employee monitors the filing of this information and passes it along to the firm's sales and marketing functions. The competitor assesses the profitability of First-Class Mail International on a per-piece or weight basis. The competitor then targets its advertising and sales efforts at actual or potential customers



in market segments where the Postal Service appears to have made headway, hindering the Postal Service's ability to reach out effectively to these customers.

**Harm: Foreign Postal Operators could use the disaggregated revenue, pieces, and weight information to undermine the Postal Service's position in contract negotiations with those customers.**

**Hypothetical:** The disaggregated revenue, volume, and weights are disclosed to the public. Foreign Postal Operators obtain the information and use it to their advantage in negotiating bilateral or multilateral terminal dues rates with the Postal Service.

**(6) The extent of protection from public disclosure deemed to be necessary;**

The Postal Service maintains that the disaggregated cost, volume, and revenue data should be withheld from any person who has not agreed to the Commission's standard confidentiality requirements, including any person involved in competitive decision-making for any entity that might gain competitive advantage from use of this information, including competitors and Foreign Postal Operators. The Postal Service further maintains that actual or potential customers of the Postal Service for these or similar products should not be provided access to the nonpublic materials.

**(7) The length of time deemed necessary for the non-public materials to be protected from public disclosure with justification thereof; and**

The Commission's regulations provide that non-public materials shall lose non-public status ten years after the date of filing with the Commission, unless the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30.

**(8) Any other factors or reasons relevant to support the application.**

The Postal Service considers this Application sufficient to fulfill the Postal Service's obligations to justify its determination that disaggregated cost, volume, and revenue data should be treated as non-public.

**Conclusion**

For the reasons discussed, the Postal Service requests that the Commission grant this application for non-public treatment of the identified material.